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SIPDIS

FROM U.S. MISSION TO UN AGENCIES IN ROME

STATE FOR IO/EDA AND IO/S
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SUBJECT: FAO FINANCE AND PROGRAM COMMITTEES CONSIDER
MEDIUM TERM PLAN FOR 2004-09

11. SUMMARY: THE FAO FINANCE AND PROGRAM COMMITTEES MET AT FAO HEADQUARTERS IN ROME SEPTEMBER 9-13, 2002. THE MAIN TOPIC IN THE JOINT SESSION WAS THE MEDIUM TERM PLAN (MTP) 2004-09 AND PRIORITIZATION OF RESOURCES. THE DIRECTOR GENERAL MADE A STRONG BID FOR INCREASED RESOURCES TO IMPLEMENT THE OBJECTIVES ENDORSED AT THE WORLD FOOD SUMMIT:FIVE YEARS LATER MEETING LAST JUNE, A BID MOST DONORS CONSIDERED UNREALISTIC. CANADA SPARKED DISCUSSION WITH AN OFFER, WHICH WAS DECLINED, TO HIRE AN EXPERT GROUP OF CONSULTANTS TO SET PRIORITIES FOR THE FAO.

12. IN THE PROGRAM COMMITTEE MEMBERS SPLIT ALONG PREDICTABLE NORTH/SOUTH LINES IN SUPPORT FOR INCREASES IN THE VARIOUS PROGRAMS CONTAINED IN THE MEDIUM TERM PLAN. CAIRNS GROUP PROGRAM COMMITTEE MEMBERS TOOK THE LEAD IN A SUCCESSFUL EFFORT TO BOLSTER SUPPORT FOR THE PLANT-HEALTH STANDARD SETTING ACTIVITIES OF THE INTERNATIONAL PLANT PROTECTION CONVENTION (IPPC).

13. THE FINANCE COMMITTEE, OF WHICH THE UNITED STATES IS A MEMBER, DWELT ON THE CONTINUED DETERIORATION IN FAO'S FINANCES. THE FAO MAY BE FORCED TO BORROW EXTERNALLY BY YEAREND IF U.S. ARREARS ARE NOT REDUCED SUBSTANTIALLY. THE MOST CONTROVERSIAL TOPIC WAS THE REPORT PRESENTED BY THE OUTGOING EXTERNAL AUDITOR WHICH
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CONTAINED SHARP CRITICISM OF INTERNAL CONTROLS. FINALLY, FAO WILL PUSH FOR ADOPTION OF ITS SPLIT ASSESSMENT SCHEME (USD/EUROS) BY THE NEXT CONFERENCE.

14. THE FINANCE AND PROGRAM COMMITTEES ARE TENTATIVELY SCHEDULED TO MEET AGAIN MAY 5-9, 2003. THE FINANCE COMMITTEE WILL MEET IN AN ADDITIONAL, EXTRAORDINARY SESSION OCTOBER 7-8, 2002 TO REVIEW THE WORLD FOOD PROGRAM'S AUDITED ACCOUNTS. END SUMMARY.

15. COMPOSITION OF COMMITTEES DONE BY REGION

THE FINANCE AND PROGRAM COMMITTEES ARE COMPOSED OF REPRESENTATIVES OF EACH REGIONAL GROUP OF MEMBER STATES. THE FINANCE COMMITTEE (NINE MEMBERS) WAS CHAIRED BY CHILE AND INCLUDED, IN ADDITION TO THE UNITED STATES, REPRESENTATIVES OF JAPAN, KUWAIT, PAKISTAN, SENEGAL, SWITZERLAND, TANZANIA, AND THE UNITED KINGDOM. THE PROGRAM COMMITTEE (ELEVEN MEMBERS) WAS CHAIRED BY THE DUTCH PERMREP AND INCLUDED REPRESENTATIVES OF AUSTRALIA, CAMEROON, CANADA, CHINA, COLOMBIA, LEBANON, MALAYSIA, MALI, PARAGUAY AND SUDAN. MEMBERS ARE ELECTED BY THE CONFERENCE FOR TWO-YEAR TERMS, AND THIS WAS THE SECOND MEETING FOR MOST PARTICIPANTS.

16. DIRECTOR GENERAL CALLS FOR MORE RESOURCES TO IMPLEMENT THE "INTERNATIONAL ALLIANCE"

THE DIRECTOR GENERAL TOLD THE JOINT COMMITTEE THAT THE FAO FINDS ITSELF IN AN IMPOSSIBLE SITUATION: MEMBERS
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STATES ACROSS THE BOARD WANT THE FAO TO DO MORE, BUT THE ORGANIZATION HAS NOT BEEN GRANTED INCREASED RESOURCES TO CARRY OUT ITS BROADER MANDATE. THIS CREATES A ZERO SUM GAME; FAO MUST TAKE FUNDS FROM ONE ACTIVITY TO SUPPORT AN INCREASE IN ANOTHER. HE ASKED FOR GREATER UNDERSTANDING.

THE DIRECTOR GENERAL ALSO EXPRESSED CONCERN ABOUT THE FAO'S FINANCIAL SITUATION. HE BLAMED U.S. ARREARS FOR CAUSING A CASH FLOW CRISIS. IN ADDITION TO MORE THAN USD 95 MILLION IN ARREARS, THE UNITED STATES GENERALLY PAYS ITS ASSESSMENT IN THE LAST QUARTER OF THE YEAR (ALTHOUGH IT IS DUE IN FULL AT THE BEGINNING OF THE YEAR.) HE SAID THERE WERE NO FUNDS FOR \$14 MILLION IN ANNUAL AFTER SERVICE MEDICAL COSTS AMONG OTHER STAFF RELATED EXPENSES. IF THE FAO WERE TO SPEND OBLIGATIONS UNDER THE TECHNICAL COOPERATION PROGRAM (TCP) MORE RAPIDLY AS URGED, IT WOULD BE BANKRUPT. HE URGED ADOPTION OF THE SPLIT ASSESSMENT SCHEME (EUROS AND U.S. DOLLARS) TO REDUCE THE FOREIGN EXCHANGE RISK ASSUMED BY THE FAO.

THE DIRECTOR GENERAL ALSO ACKNOWLEDGED THE SHARP

CRITICISM LEVIED BY THE EXTERNAL AUDITORS, ESPECIALLY REGARDING INTERNAL CONTROLS. FAO HAS ACCEPTED VIRTUALLY ALL OF THE AUDITORS' RECOMMENDATIONS AND PROVIDED THE FINANCE COMMITTEE WITH AN ACTION PLAN FOR IMPLEMENTATION.

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THE ONLY RECOMMENDATIONS REJECTED CONCERNED INCREASED STAFF, FOR WHICH THERE WAS NO FUNDING, AND MERGING INTERNAL CONTROLS (AUD) WITH EVALUATIONS (PBEE).

HE ALSO DEFENDED HIS MANAGEMENT OF THE ORGANIZATION'S FINANCES. IN REVIEWING PAST HISTORY, HE SAID HE HAD NOT BEEN GIVEN THE RESOURCES HE NEEDED TO CHANGE THE FINANCIAL REPORTING SYSTEM. IN FACT, THE OVERALL LEVEL OF THE BUDGET HAD BEEN CUT SHORTLY AFTER HE TOOK OFFICE IN 1994. DESPITE THESE OBSTACLES, HE TOOK PRIDE IN THE FACT THAT FAO'S ACCOUNTS HAD BEEN CONSISTENTLY APPROVED EVERY BIENNIAL WITHOUT ANY RESERVATIONS BY THE EXTERNAL AUDITORS.

IN CONCLUSION, HE ASSERTED HE WAS ENCOURAGED BY THE RESULTS OF THE WORLD FOOD SUMMIT MEETING LAST JUNE. IT HAD RAISED AWARENESS OF HUNGER PROBLEMS AND FORGED NEW PARTNERSHIPS. HE WAS ALSO ENCOURAGED BY SIGNS OF REVERSAL IN THE LONG DOWNWARD TREND IN RESOURCES DEVOTED TO AGRICULTURAL DEVELOPMENT, ESPECIALLY FROM DEVELOPING COUNTRIES. HE ASKED FOR THE MEMBERSHIP'S INCREASED FINANCIAL SUPPORT FOR FAO.

17. THE MEDIUM TERM PLAN (MTP) 2004-09 RENEWS FAO'S REQUEST FOR ADDITIONAL RESOURCES

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THIS DISCUSSION MARKED THE KICK-OFF OF THE BUDGET BATTLE. US PERMREP STATED THE U.S. POSITION WAS STILL TO SUPPORT ZERO NOMINAL GROWTH (ZNG) NOTING WE HAD ABSTAINED ON ADOPTION OF A ZERO REAL GROWTH BUDGET (ZRG) AT THE FAO CONFERENCE LAST NOVEMBER. JAPAN JOINED THE US POSITION. (COMMENT - THE EU WAFFLED DUE TO LACK OF CONSENSUS ON A SINGLE POSITION, BUT GERMANY, NOT PRESENT IN THE FINANCE OR PROGRAM COMMITTEES, IS LIKELY TO SUPPORT US AS WELL - END COMMENT). THE LATIN AMERICAN REPRESENTATIVE, CHILE, POINTED OUT THAT THE ADVERSE INTERNATIONAL CONTEXT WILL BEAR ON INCREASING THE BUDGET. HE TOLD THE U.S. PERMREP PRIVATELY THAT ARGENTINA WOULD SEEK AN ADJUSTMENT OF ITS ASSESSMENT DUE TO ITS ECONOMIC REVERSAL. AS IN THE LAST BUDGET ROUND, SEVERAL MEMBERS CALLED ON THE SECRETARIAT TO PRODUCE MORE THAN ONE BUDGET SCENARIO TO FACILITATE MORE REALISTIC PLANNING.

CANADA SPARKED A LIVELY DISCUSSION IN THE JOINT COMMITTEE ON PRIORITIZATION WITHIN AGREED BUDGET LEVELS. CANADA OFFERED TO PAY FOR A GROUP OF EXTERNAL EXPERTS TO EVALUATE THE MTP AND PROPOSE REALLOCATION OF RESOURCES. THIS WOULD AVOID UNFORESEEN SHIFTS IN RESOURCES FROM THE REAL GROWTH BUDGET ADVOCATED BY THE DIRECTOR GENERAL IF THE AGREED LEVEL, AS PAST EXPERIENCE SHOWS, WERE TO BE MUCH LOWER. IT WOULD ALSO HAVE THE ADVANTAGE OF INCREASING MEMBER PARTICIPATION IN THE PROCESS. HOWEVER, MEMBERS OF THE COMMITTEE DECIDED TO LEAVE THE PROCESS IN THE HANDS OF THE GOVERNING BODIES AND THE FAO SECRETARIAT.

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MEMBERS' OPINIONS ON PRIORITIZATION SPLIT ALONG
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PREDICTABLE NORTH/SOUTH LINES. MANY CALLED FOR A
STRONGER REGIONAL FOCUS IN THE MTP. DEVELOPING COUNTRIES
SUPPORTED THE NEARLY 35 PERCENT INCREASE PROPOSED FOR THE
TECHNICAL COOPERATION PROGRAM (TCP), FAO COUNTRY
REPRESENTATIVES AND THE SPECIAL PROGRAM FOR FOOD SECURITY
(SPFS). OECD COUNTRIES SPOKE ON BEHALF OF THE NORMATIVE
PROGRAMS OF THE ORGANIZATION AND SUPPORTED INCREASES FOR
FISHERIES AND FORESTRY. MANY, INCLUDING THE UNITED
STATES, WERE ESPECIALLY CONCERNED ABOUT INSUFFICIENT
RESOURCES FOR THE INTERNATIONAL PLANT PROTECTION
COMMISSION (IPPC). AT CURRENT RESOURCE LEVELS EVEN
PLANNED ACTIVITIES CANNOT TAKE PLACE.

18. FAO'S FINANCIAL CRISIS COULD RESULT IN EXTERNAL
BORROWING

THE MAIN FOCUS OF THE DISCUSSION WAS ON THE EVER WEAKER
FINANCIAL POSITION OF FAO WHICH WAS ATTRIBUTED LARGELY TO
ARREARS OF THE "MAJOR CONTRIBUTOR." THE U.S. TOOK THE
POSITION THAT THE GROWING DEFICIT WAS THE RESULT OF
EXPENDITURES EXCEEDING INCOME. (THE EXTERNAL AUDITOR
NODDED IN AGREEMENT.) THE U.S. PERMREP BRIEFED THE
COMMITTEE ON EFFORTS TO PAY ARREARS (INCLUDING THE
CURRENT YEAR ASSESSMENT WHICH WAS DUE JAN. 1, 2002) AND
AFFIRMED OUR GOAL TO PAY CURRENT YEAR DUES PLUS ARREARS

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SUBJECT: FAO FINANCE AND PROGRAM COMMITTEES CONSIDER
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THIS CALENDAR YEAR. THE U.K. PERMREP PRESSED FAO TO LOOK
AHEAD AND PREDICT THE RISK OF EXTERNAL BORROWING AND HOW
MUCH IT MIGHT COST.

19. EXTERNAL AUDITOR'S REPORT SPURS FAO TO REACT WITH A
DETAILED ACTION PLAN

THE FAO HAS BEEN STUNG BY THE LENGTHY CRITICISM IN THE
EXTERNAL AUDITOR'S REPORT. FOR ONCE, RATHER THAN GET
DEFENSIVE, THEY HAVE TAKEN ACTION, ESPECIALLY TO IMPROVE
INTERNAL CONTROLS. (COMMENT: A TOP ADVISOR TO THE DG,
TOLD THE U.S. PERMREP THAT THE DG WAS WORRIED ABOUT THE
POTENTIAL IMPACT OF THE REPORT ON PAYMENT OF U.S.
ARREARS. END COMMENT) THE INSPECTOR GENERAL WILL NOT BE
EXTENDED AS HAS BEEN THE DG'S ANNUAL PRACTICE FOR THE
LAST FIVE YEARS ALTHOUGH THE INCUMBENT HAD REACHED
MANDATORY RETIREMENT AGE, AND THE POSITION HAS ALREADY
BEEN POSTED ON THE FAO WEBSITE. THE FAO SECRETARIAT
PRESENTED THE ACTION PLAN CALLED FOR IN THE REPORT
ACCEPTING VIRTUALLY ALL THE EXTERNAL AUDITOR'S
RECOMMENDATIONS. THIS INCLUDES CREATING AN AUDIT
COMMITTEE. IN AN ATYPICAL ROLE REVERSAL, SENEGAL
QUESTIONED INCREMENTAL COSTS THAT MIGHT BE INCURRED BY
CREATION OF AN AUDIT COMMITTEE.

THE UNITED STATES ALSO PRESENTED COMMENTS REGARDING
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RECOMMENDATIONS FOR IMPROVING ADMINISTRATION OF THE OIL

FOR FOOD PROGRAM IN IRAQ WHICH WERE WELL RECEIVED. ONE OF THE MAIN POINTS WAS THAT THE FAO MUST IMPROVE EMERGENCY OPERATIONS IN SITUATIONS WHERE THE GOVERNMENT AND OTHER INFRASTRUCTURE HAVE VIRTUALLY COLLAPSED, AS IN AFGHANISTAN. THE OIL FOR FOOD PROGRAM IS THE LARGEST EVER ADMINISTERED BY THE FAO.

110. SPLIT ASSESSMENT SCHEME PROPOSED TO AVOID FOREIGN EXCHANGE LOSSES ESTIMATED TO REACH \$35 MILLION 2004-05

THE FAO SECRETARIAT PRESSED FOR A DECISION ON THIS "URGENT" MATTER ALTHOUGH IT WAS FOR DISCUSSION ONLY. THEY PROJECTED THAT, AT CURRENT EXCHANGE RATES, THE FAO WOULD BE IN THE HOLE \$35 MILLION IF A ZNG BUDGET WERE APPROVED FOR THE NEXT BIENNIUM. THE EU COULD NOT EXPRESS AN AGREED POSITION, BUT THE FRENCH ARE KNOWN TO BE STRONGLY IN SUPPORT OF USING THE EURO. SEVERAL REPRESENTATIVES OF G-77 COUNTRIES SPOKE IN FAVOR OF THE PLAN. THE MATTER WILL LIKELY BE RAISED AT THE FAO COUNCIL MEETING IN OCTOBER/NOVEMBER TO ENABLE THE FAO TO PRESENT THE SCHEME TO THE CONFERENCE IN 2003 FOR DECISION.

THE UNITED STATES WAS ISOLATED ON PROCEDURAL AND SUBSTANTIVE GROUNDS. WE ASKED FOR MORE INFORMATION ON THE EXPERIENCE OF OTHER UN AGENCIES, LIKE IAEA AND UNESCO, WITH SPLIT ASSESSMENT SCHEMES. WE ALSO REQUESTED DATA ON THE COST OF IMPLEMENTATION. THE FAO POINTED OUT THAT THE UNITED STATES IS THE ONLY MEMBER WITH NO FXR RISK AT PRESENT SINCE WE PAY OUR ASSESSMENT IN OUR NATIONAL CURRENCY.

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111. PROGRESS REPORTED IN MANAGEMENT OF LONG TERM INVESTMENT PORTFOLIO AND ORACLE PROJECT

ONE OF THE SOURCES OF CONTINUING LOSSES IN INCOME IS THE FAO'S LONG-TERM INVESTMENT PORTFOLIO. WHILE THIS IS UNDERSTANDABLE IN THE CURRENT DOWNTURN IN GLOBAL FINANCIAL MARKETS, FAO HAS SUSTAINED LOSSES THAT EXCEED EVEN THE TARGETED LEVEL OF LOSSES. THE EXTERNAL AUDITOR'S REPORT FOCUSED ON DEFICIENCIES IN THE TREASURY DEPARTMENT AS WELL AS INTERNAL CONTROLS. HOWEVER, THE FAO HAS MADE PROGRESS. THE ADVISORY COMMITTEE ON INVESTMENT MET LAST MAY AND OFFERED SOME ADVICE. THE PROPORTION OF EQUITIES IN THE INVESTMENT PORTFOLIO HAS BEEN REDUCED. HOWEVER, IT SEEMS THAT THE GROWTH STRATEGY OF THE INVESTMENT MANAGER IS INAPPROPRIATE FOR THIS PHASE OF THE MARKET. FAO WAS ADVISED TO FOLLOW UP ON THE ACI AND EXTERNAL AUDITOR'S RECOMMENDATIONS TO SPLIT THE PORTFOLIO BETWEEN MANAGERS WITH VALUE AND GROWTH ORIENTED STRATEGIES.

THE ORACLE PROJECT NOW SEEMS ON FIRM GROUND. THE PROBLEMS THAT CAUSED COST OVERRUNS IN THE FIRST PHASE HAVE BEEN RESOLVED AND THE UPGRADE HAS BEEN INSTALLED. WORK HAS STARTED ON EXTENDING THE NEW INFORMATION

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MANAGEMENT SYSTEM TO HUMAN RESOURCES AND PAYROLL, BUT PROJECT IMPLEMENTATION IS CONTINGENT ON THE AVAILABILITY OF FUNDS. THE FAO HAS PROPOSED CREATION OF A CAPITAL BUDGETING FUND AS PART OF THE BUDGET FOR PROJECTS LIKE

ORACLE THAT SPAN SEVERAL BIENNIA. AS IT NOW STANDS, THE PROJECT CANNOT PROCEED UNTIL THE UNITED STATES PAYS ITS ARREARS.

112. FAO PROGRAM COMMITTEE

PROGRAM COMMITTEE MEMBER AUSTRALIA PROVIDED A READOUT ON THE PROGRAM COMMITTEE TO MISOFF, HIGHLIGHTING THE FOLLOWING ISSUES:

-- EVALUATION OF FAO'S EMERGENCY ACTIVITIES: MEMBERS WELCOMED THE EVALUATION, PARTICULARLY AS IT IS THE FIRST OF ITS KIND TO EVALUATE AN FAO PROGRAM IN THE CONTEXT OF THE FAO'S STRATEGIC FRAMEWORK. U.S. COMMENTS ON THE EMERGENCY ACTIVITIES (DRAFTED BY FODAG SENIOR HUMANITARIAN COORDINATOR), PROVIDED INFORMALLY TO OTHER OECD PROGRAM COMMITTEE MEMBERS, WERE WELCOMED AS A SUBSTANTIVE CONTRIBUTION TO THE DEBATE.

-- STATUS REPORT ON CODEX EVALUATION: PROGRAM COMMITTEE MEMBERS WELCOMED THE CODEX COMMISSION'S EXECUTIVE COMMITTEE REPORT AND, IN PARTICULAR, THE INFORMATION CONTAINED THEREIN ON THE REGIONAL BALANCE ON THE UNCLASSIFIED

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EVALUATION TEAM AND CLEARER PROVISIONS FOR CODEX INPUT INTO THE EVALUATION PROCESS.

-- INTERNATIONAL PLANT PROTECTION CONVENTION: CAIRNS GROUP MEMBERS TOOK THE LEAD IN STRESSING THE HIGH PRIORITY OF THE ACTIVITIES OF THE INTERIM COMMISSION, AND THE NEED TO ASSURE FUNDING FOR THE INTERIM COMMISSION'S STANDARD SETTING PROGRAM. AUSTRALIA REPORTED THAT THE PROGRAM COMMITTEE RECEIVED VERBAL ASSURANCES THAT THE SECRETARIAT WOULD MAKE EFFORTS TO FIND FUNDS WITHIN THE

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EXISTING BUDGETARY AUTHORITY TO COVER THE SHORTFALL IN THE CURRENT BIENNIUM. CONCERNING IPPC ACTIVITIES IN THE MEDIUM TERM PLAN, AUSTRALIA WAS SUCCESSFUL IN INSERTING A REFERENCE TO THE NEED TO COMPLETE FOUR STANDARDS PER YEAR IN ADDITION TO PROVIDING TECHNICAL ASSISTANCE AND INFORMATION EXCHANGE.

-- BRIEFING ON SOUTHERN AFRICAN DROUGHT: AT THE REQUEST OF SUDAN, THE SECRETARIAT BRIEFED THE PROGRAM COMMITTEE ON THE SITUATION IN SOUTHERN AFRICA AND THE ISSUES RELATING TO PROVISION OF BIOTECH-ENGINEERED FOOD AID. THE SECRETARIAT BRIEFING REPORTEDLY HEWED CLOSELY TO THE AGREED JOINT FAO/WHO/WFP STATEMENT; THE PROGRAM COMMITTEE REPORT WILL SIMPLY NOTE THAT THE STATEMENT WAS DISTRIBUTED.

-- FOLLOW-UP TO SPECIAL PROGRAM ON FOOD SECURITY (SPFS) EVALUATION: THE SECRETARIAT BRIEFED THE PROGRAM COMMITTEE ON FOLLOW-UP TO THE SPFS EVALUATION.

113. COMMENT

THE FAO TENDS TO BLAME THE "MAJOR CONTRIBUTOR," I.E. THE UNITED STATES, FOR FAR TOO MANY OF ITS FINANCIAL PROBLEMS UNCLASSIFIED

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AND CONTINUES TO SPEND BEYOND WHAT IT CAN RATIONALLY AFFORD. THE DIRECTOR GENERAL, URGED ON BY POTENTIAL BENEFICIARIES, CONTINUES TO PRESS FOR MORE RESOURCES FROM DONORS THAN HE CAN REASONABLY EXPECT TO OBTAIN. THE RISK FOR DONORS IS THAT AS RESOURCES ARE SPREAD MORE THINLY, NORMATIVE ACTIVITIES, LIKE IPPC, CAN BECOME IMPOVERISHED AND LOSE CRITICAL MASS. WE NEED TO FOCUS OUR EFFORTS ON WHERE RESOURCES ARE USED AS WELL AS ON THE OVERALL BUDGET LEVEL. END COMMENT.

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